

**Testimony of Richard Cimerman**  
**Vice President, State Government Affairs**  
**National Cable & Telecommunications Association**  
**before the**  
**House Energy and Commerce Committee**  
**on**  
**Universal Service: What are We Subsidizing and Why? Part 1: The High-Cost Fund**  
**June 21, 2006**

Chairman Barton and members of the committee thank you for inviting me to testify today. My name is Rick Cimerman and I am the Vice President of State Government Affairs for the National Cable & Telecommunications Association (NCTA), which is the principal trade association representing the cable industry in the United States. Its members include cable operators serving more than 90% of the nation's cable television subscribers, as well as more than 200 cable programming networks. NCTA's members also include suppliers of equipment and services to the cable industry. The cable industry is the nation's largest broadband provider of high speed Internet access after investing \$100 billion over ten years to build out a two-way interactive network with fiber optic technology. Cable companies also provide state-of-the-art digital telephone service to millions of American consumers.

**The Cable Industry Supports Universal Service**

Thank you for inviting me to comment on universal service issues. We appreciate your giving the cable industry the opportunity to share its views. The cable industry strongly supports

the goals and purposes of the universal service fund (USF). Universal service is a longstanding component of national telecommunications policy and we share the concerns of policymakers, industry stakeholders and the public that, in its current form, the universal service program is not sustainable. While there is general consensus that all aspects of the system, including contributions, eligibility and level of support are in need of reform, there are a wide range of views as to how the program should be restructured.

At the outset I want to be clear that cable operators that offer VoIP services pay millions of dollars into the current universal service fund and we support making that obligation clear in law. In addition, cable companies that offer traditional circuit switched service pay into the fund exactly the same as all other incumbent and competitive local exchange carriers that offer circuit switched service.

In discussing high cost universal service reform today I will make three main points:

- a telephone number-based contribution mechanism should be adopted;
- broadband services should not be assessed for universal service purposes;
- all universal service distributions should be competitively and technologically neutral and encourage efficiency.

### **A Number-Based Assessment Mechanism Should Be Adopted**

The current USF contribution mechanism, which relies on the assessment of interstate telecommunications revenues only, virtually guarantees that the fund will continue to shrink. There are several reasons for this. An increasing number of companies offer consumers voice

telephone service for a fixed monthly rate that does not differentiate between local or long distance calls. Companies also offer bundled packages of digital services that include voice telephony. Most consumer VoIP services are offered without regard to intrastate or interstate distinctions. The fact is that interstate telecommunications revenues have been declining and are predicted to continue declining for the foreseeable future. As the line between what is a local and long distance call continues to blur, the existing USF contribution mechanism will become increasingly obsolete which threatens the viability of the program itself.

To address this problem, the cable industry has long advocated the adoption of a telephone numbers-based contribution mechanism, a simple yet effective reform that will sustain the long-term health of this fund while adapting to the evolving technology and economics of voice telephony. Using telephone numbers would be a relatively simple means of determining who should contribute as well as when contributions were owed and in what amount. There would be no need to apportion provider revenues into interstate versus intrastate or to determine which portion of a bundled offering represents interstate telecommunications. It would also make no difference whether a service was defined as a telecommunications service or as an information service. Under a telephone number-based system, all that matters is whether or not the service uses a phone number. Adoption of this approach would promote competitive neutrality among all voice telephone providers – those who offer their services as a replacement for plain old telephone service (POTS) – and would avoid assessments on services that only include a voice component but are not a substitute for POTS. Few would argue, for example, that applications, or devices, where voice functionality is ancillary to the actual purpose of the service or device—such as voice enabled gaming—should be assessed for USF purposes.

Some have expressed concern that a numbers-based system would collapse as proposals to map telephone numbers to Internet addresses, such as ENUM, become a reality. However, ENUM requires that a subscriber have an active telephone line. If someday in the distant future a non-number based system were developed and widely implemented, the telephone number-based contribution mechanism could easily be adapted, as some form of unique identifier or address will always be necessary to route various types of voice communications.

Mr. Chairman, the reality is that interstate telecommunications revenues are declining and will continue to decline. Conversely, an FCC staff analysis shows that the number of active telephone numbers is expected to grow for the foreseeable future, from 554 million numbers in use in 2004 to nearly 600 million numbers in use in 2007. Moving to a numbers-based USF contribution mechanism embraces this reality and will ensure the universal service fund remains solvent well into the future. Furthermore, it would create a more predictable and equitable split between assessments collected by providers of local and long distance telephone services, and between residential and business subscribers. Residential telephone subscribers would generally pay less under a numbers-based plan. Assuming an appropriate assessment amount, even most one-line households with low long distance usage would pay the same or less under a numbers-based system than they do under the existing interstate revenue model.

This is a particularly important point. Some who oppose a numbers-based assessment mechanism, because it's in their business interest to do so, claim that low-income and low volume long distance users will be unfairly burdened by a numbers-based system. They fail to

note that proponents of such a system have proposed that low-income users be exempt from USF assessment. And, perhaps more misleadingly, they fail to note that even local telephone subscribers that make no long distance calls pay at least \$.54 per month into USF based on assessments on the interstate federal subscriber line charge. Given that the various proposals before the FCC call for at most an assessment of \$1.01 per number per month, and other proposals call for something less than \$1.00, arguments that low volume users will be unduly burdened ring hollow.

### **New Government Fees Should Not Be Imposed on Broadband Service**

The imposition of new fees on broadband service at the same time policymakers seek to encourage more widespread deployment and service penetration would be counter-productive and would raise the price of high-speed Internet services for current and potential broadband customers. An appropriately crafted numbers-based assessment plan that avoids assessing broadband service will raise the revenue necessary to put the universal service fund on solid and stable ground. According to the FCC there are now 565 million telephone numbers in use. If each telephone number were assessed a universal service contribution of \$1.00 per month then \$6.8 billion per year would be raised – an amount that exceeds the 2005 expenditure of \$6.5 billion. But the various number-based proposals before the FCC also call for retaining an appropriate contribution from non-number based services, most particularly special access and private line services used by businesses. Whether such services are assessed on a capacity-based connections basis, or a revenue basis, the revenue raised would reduce the required number-based assessment well below \$1.00 per month. Thus, the assessment of broadband service is unnecessary to the goal of a stable, sufficient and predictable fund.

## **USF Distributions Should Be Competitively and Technologically Neutral and Encourage Efficiency**

It is essential that any high cost universal service reform address disbursements as well as contributions. The goals of reform should be to ensure that contributions are assessed fairly, eligibility and distributions are determined equitably, efficiently, and support is targeted to the appropriate services.

**Eligibility to Receive Funds.** Existing statutory requirements impede the eligibility of new entrants to receive universal service funds, even if they are the most efficient provider of basic services. For instance, current law requires that a recipient must be an “eligible telecommunications *carrier*” (ETC), potentially excluding VOIP service providers if VOIP is classified as information service. The FCC imposes additional restrictions on ETC eligibility, including the requirement to offer local usage plans comparable to those offered by incumbent local exchange carrier (ILEC) in the area and to provide equal access to long distance carriers if all other ETCs in area relinquish their designations.

Competitors should not have to mimic ILEC service offerings or network architecture or geographic coverage to qualify for universal service support. Cable telephony providers should be eligible if they offer supported services throughout their cable franchise areas, without regard to the historical ILEC study area or technology.

**Promoting Efficiency.** High cost universal service reform should attempt to introduce more efficiency into the rural and high-cost support mechanisms. As competitive options become available to rural consumers, it may be possible to cap the existing funds or even reduce them. Congress should also consider the possibility of promoting more efficient use of universal service funds by establishing a cost benchmark for awarding support and limiting support to one line per household.

Finally, while we agree that it is critically important to ensure that providers of supported services to consumers in rural and high-cost areas have adequate funding, as universal service contributors we also believe that funding must be subject to reasonable and regular oversight including assurances that universal service funds are being spent for their intended purpose.

Mr. Chairman, thank you for inviting me to testify today. I would be happy to answer any questions you or the members of the committee may have.